MARKET UPDATE

26/02/2024

Oil extends losses after dollar rises.

Oil prices fell on Monday, extending losses from the previous session after the dollar rose on market views that higher-than-expected inflation could delay cuts to high U.S. interest rates that have been capping global fuel demand growth.

Brent crude futures fell 14 cents, or 0.2%, to $81.48 a barrel by 0656 GMT, while U.S. West Texas Intermediate crude futures (WTI) declined 22 cents, or 0.3%, to $76.27 a barrel as the U.S. dollar strengthened. A stronger dollar makes oil more expensive for holders of other currencies.

The dip built on losses last week, when Brent declined about 2% and WTI fell more than 3% as markets pushed out the start of U.S. interest rate cuts by two months due to an uptick in inflation.

"The risk-on sentiment seems to be in a retreat after the Nvidia-led market rally last week as higher-for-longer rate expectations lifted the U.S. dollar, pressuring commodity prices," Auckland-based independent analyst Tina Teng said.

Oil prices have been trading between $70 and $90 a barrel since November, as rising supply in the U.S. and concerns of weak demand in China offset OPEC+ supply cuts despite two wars raging.

Asia FX weakens, dollar rises.

Most Asian currencies fell on Monday, while the dollar regained some ground as investors hunkered down before a barrage of cues on interest rates and U.S. inflation due later this week.

Anticipation of several regional economic cues- particularly Japanese inflation and Chinese purchasing managers index data- also kept traders on edge, especially amid growing anxiety over slowing growth in the region’s largest economies.

Japanese yen hovers above 150, CPI data awaited

The yen moved little on Monday, but hovered well above the 150 level to the dollar and remained close to three-month lows.

Focus this week was squarely on Japanese consumer price index (CPI) data for January, due on Tuesday. The reading is expected to show core inflation falling within the Bank of Japan’s 2% annual target range, giving the central bank even less impetus to begin aggressively tightening policy.

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Gold prices rangebound as rate fears persist.

Gold prices retreated in Asian trade on Monday, remaining well within a recent trading range as anxiety over higher-for-longer U.S. rates grew in anticipation of key economic readings.

The yellow metal failed to make any major price headway in recent weeks as a string of Federal Reserve officials warned that the bank was in no hurry to cut interest rates.

Signs of sticky U.S. inflation and resilience in the job market furthered this notion, with traders now steadily pricing out chances of rate cuts in May and June.

Still, some safe haven demand for gold helped limit losses in the yellow metal. Signs of a recession in Japan and the UK, coupled with continued geopolitical disruptions in the Middle East fed into safe haven demand.

Spot gold fell 0.2% to $2,032.32 an ounce, while gold futures expiring in March fell 0.4% to $2,041.85 an ounce by 23:52 ET (04:52 GMT).

PCE inflation, GDP data in focus

Focus was now squarely on U.S. PCE price index data- the Fed's preferred inflation gauge- which is due later this week. The reading is expected to offer more cues on U.S. inflation after a series of sticky readings for December and January.

Several Fed officials are also set to speak later this week, and are expected to largely reiterate the bank's outlook for higher-for-longer rates, amid concerns over high inflation.

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